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SUBJECT: INDIAN SUMMER: HUNGARY MOVES FROM A HURRY TO
HIBERNATION

REF: A) BUDAPEST 1143 AND PREVIOUS B) BUDAPEST 1137
C) BUDAPEST 1102 D) BUDAPEST 965

Classified By: P/E COUNSELOR ERIC V. GAUDIOSI; REASONS 1.4 (B) AND (D)

DODGING BULLETS

11. (C) Summary: With the winter recess in sight, the Gyurcsany government is congratulating itself on the passage of the 2009 budget and the adoption of minor changes in Hungary's tax structure. But the international stabilization package has provided only a tenuous degree of stability, and economic analysts and business representatives see key indicators weakening as borrowing declines and layoffs increase. Discontent among public sector employees - and the public more broadly - points to growing frustration with Hungary's political parties and its political institutions, potentially opening the door for a continued increase in extremist sentiment. End Summary.

THE KEY WORD IS SEMBLANCE

12. (C) With the successful passage of key budgetary provisions and minor changes to its tax system, the GoH is enjoying a relative lull as Parliament prepares for its winter recess. Having cleared these two hurdles, which he himself established as conditions for not resigning from office, Prime Minister Gyurcsany is being hailed by MszP sources as "a genius." From all appearances, he will conclude another year in office as the international bailout returns the economy to a semblance of stability.

AN ICE AGE ECONOMICALLY (

13. (C) But that stability remains highly fragile. Although bond purchases have revived somewhat, former Finance Minister Lajos Bokros notes that Hungary was "days away from bankruptcy" before the recent bail-out ... and warns that it could return to the edge. Economic analysts and business contacts agree that the expected downturn of 2009 will likely make the stagnation of 2008 seem robust by comparison (REF A and previous).

14. (C) Contraction is the rule of day, with export orders and consumer confidence down sharply in recent weeks. A recent OECD report listed Hungary as the country "most vulnerable" to continued economic shocks. The EBRD echoes this warning, concluding that "commercial borrowing has virtually stopped" and suggesting that potential partners may have trouble finding matching funds for EU development projects. Layoffs are approaching 30,000 this year - 10,000 in the past month alone - as leading businesses ranging from Suzuki to GE have announced significant cutbacks. Russian-owned MALEV airlines is reportedly in financial free fall, with a suspension of operations possible. Expat business reps confide that "no new money is coming in." (The

American International School, for example, is preparing contingency plans for a significant decline in expat enrollment as foreign companies revisit their staffing levels.)

15. (C) The government's tax package will do little to restore the confidence of individual or institutional investors. Confronted with a system often described as "a masterpiece of complication," the government made only marginal revisions by reducing some inheritance taxes, setting limits on cash payments, and imposing penalties on suspect transactions. While such measures to whiten the economy are positive, the business community rightly regards these as baby steps) not great strides forward. Moreover, the government has left the two most controversial taxes) the "Solidarity Tax" on foreign businesses and the "Robin Hood Tax" on energy companies) in place.

AND FROZEN CONFLICTS POLITICALLY

16. (C) Prime Minister Gyurcsany has reaffirmed his commitment to "return to reform" in 2009, but thus far senior officials including Minister of Economy Bajnai have been unable to outline a clear way forward. Minister of Social Affairs and Labor Erika Szucs, responsible for the task of welfare reform, jokes that "at least everyone is equally mad at us," but that leaves the government with little traction to move forward on key tasks ranging from administrative restructuring to real tax reform.

17. (C) Although major employers' associations have formed a "Reform Alliance" to promote such steps (reportedly in

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coordination with the Prime Minister), even the present holding pattern is proving controversial. An estimated 20,000 public sector employees took to the streets of Budapest November 29 to protest against the austerity measures necessitated by the international stabilization package. A "conditional strike" is scheduled for January 12.

Cabinet Minister Kiss notes that discussions with the major unions are ongoing (and other contacts joke darkly that even 20,000 represents just a small fraction of Hungary's bloated public sector), but he admits that negotiations thus far have amounted to little more than "both sides shouting at each other."

18. (C) Shouting may become the order of the day. Analysts at "Political Capital" warn that increasing disenchantment with Hungary's political parties as well as its political institutions has left public discourse "held hostage by a far right agenda." Professor Laszlo Valki, head of the Prime Minister's Foreign Policy Advisory Council, and Budapest Mayor Gabor Demszky both believe that tensions with Slovakia (REF C) and the perception of "Roma crime" (REF B) will further compound the problem by encouraging what "Political Capital" calls "prejudice as a world view" (septel). Valki fears that a long-term economic downturn will leave even the middle class "at risk economically and politically," and President Solyom has warned that Hungary will confront "a slow-moving period of torment."

A ZERO-SUM GAME?

19. (C) Comment: As the winter recess approaches, Prime Minister Gyurcsany remains alive but not well (and likely to fare worse politically if he undertakes the reforms that are necessary economically. But the MSzP's rivals have yet to turn his unpopularity to their own advantage. FIDESZ's pronouncements on the economic crisis have turned once again to pessimism and populism, offering little to educate the public or to encourage foreign investors. Both the MDF and the SzDSz continue to contend with serious - and some say insoluble - internal problems (REF D). Both are polling below the five percent minimum required for representation in Parliament, often statistically even with the far-right

JOBBIK party. We note with concern that the trend lines for the small moderate parties are down, however, while the media-savvy JOBBIK can see a clear opportunity to capitalize on the economic downturn and the public's discontent. End Comment.
Levine